

**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
[www.kyauditor.net](http://www.kyauditor.net)

144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Morgan County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances increased by \$2,719,526 from the beginning of the year, resulting in a cash surplus of \$4,042,619 as of June 30, 2002. The increase in fund balances is attributed to the receipt of state grants which will be expended in future years.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$3,886,926 as of June 30, 2002. Future principal and interest payments of \$5,320,756 are needed to meet these obligations.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



## CONTENTS

PAGE

|                                                                                                                                                                                        |    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| INDEPENDENT AUDITOR’S REPORT .....                                                                                                                                                     | 1  |
| MORGAN COUNTY OFFICIALS .....                                                                                                                                                          | 3  |
| STATEMENT OF ASSETS, LIABILITIES,<br>AND EQUITY ARISING FROM CASH TRANSACTIONS .....                                                                                                   | 6  |
| STATEMENT OF CASH RECEIPTS,<br>CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES .....                                                                                                  | 12 |
| NOTES TO FINANCIAL STATEMENTS .....                                                                                                                                                    | 14 |
| SUPPORTING SCHEDULES:                                                                                                                                                                  |    |
| COMPARATIVE SCHEDULE OF<br>BUDGETED TO ACTUAL OPERATING REVENUE .....                                                                                                                  | 23 |
| SCHEDULE OF OPERATING REVENUE .....                                                                                                                                                    | 27 |
| COMPARATIVE SCHEDULE OF<br>FINAL BUDGET AND BUDGETED EXPENDITURES .....                                                                                                                | 31 |
| REPORT ON COMPLIANCE AND ON INTERNAL CONTROL<br>OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL<br>STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS ..... | 35 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS<br>APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL<br>OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....                      | 39 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....                                                                                                                                        | 43 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....                                                                                                                                       | 47 |
| NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....                                                                                                                          | 48 |
| APPENDIX A:                                                                                                                                                                            |    |
| CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM                                                                                                             |    |





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Honorable Sid Stewart, Former Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Morgan County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Morgan County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Morgan County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002, of Morgan County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Honorable Sid Stewart, Former Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2003 on our consideration of Morgan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Morgan County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 7, 2003



MORGAN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

|                 |                        |
|-----------------|------------------------|
| Sid Stewart     | County Judge/Executive |
| Michael Gevedon | Magistrate             |
| Kenneth Cottle  | Magistrate             |
| Dorman Nipper   | Magistrate             |
| Darris Smith    | Magistrate             |
| Darrell Patrick | Magistrate             |

**Other Elected Officials:**

|                 |                                  |
|-----------------|----------------------------------|
| Steve O'Connor  | County Attorney                  |
| Gary Cox        | Jailer                           |
| Janis Williams  | County Clerk                     |
| Donna Pelfrey   | Circuit Court Clerk              |
| Bill Frank Lacy | Sheriff                          |
| Darrell Bradley | Property Valuation Administrator |
| Marling Potter  | Coroner                          |

**Appointed Personnel:**

|              |                  |
|--------------|------------------|
| Tommy Phipps | County Treasurer |
|--------------|------------------|



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

MORGAN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

|                                                                  | <u>Governmental Fund Types</u> |                            |                             |
|------------------------------------------------------------------|--------------------------------|----------------------------|-----------------------------|
|                                                                  | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> |
| <u>Assets and Other Resources</u>                                |                                |                            |                             |
| <u>Assets</u>                                                    |                                |                            |                             |
| Cash and Cash Equivalents                                        | \$ 4,037,550                   | \$ 69                      | \$ 5,000                    |
| Total Assets                                                     | 4,037,550                      | 69                         | 5,000                       |
| <u>Other Resources</u>                                           |                                |                            |                             |
| Amounts to Be Provided<br>In Future Years for:                   |                                |                            |                             |
| Kentucky Association of Counties                                 |                                |                            |                             |
| Leasing Trust Agreement (Notes 5A-E)                             | \$ 3,885,026                   | \$                         | \$                          |
| Kentucky Area Development<br>Districts Financing Trust (Note 5F) | <u>1,900</u>                   |                            |                             |
| Total Other Resources                                            | <u>\$ 3,886,926</u>            | <u>\$</u>                  | <u>\$</u>                   |
| Total Assets and Other Resources                                 | <u>\$ 7,924,476</u>            | <u>\$ 69</u>               | <u>\$ 5,000</u>             |

The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Totals  
(Memorandum Only)  
Reporting  
Entity  

---

---

\$ 4,042,619

4,042,619

\$ 3,885,026

---

1,900

---

\$ 3,886,926

---

---

\$ 7,929,545

The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

|                                      | Governmental Fund Types |                    |                     |
|--------------------------------------|-------------------------|--------------------|---------------------|
|                                      | General                 | Special<br>Revenue | Capital<br>Projects |
| <u>Liabilities and Equity</u>        |                         |                    |                     |
| <u>Liabilities</u>                   |                         |                    |                     |
| Kentucky Association of Counties     |                         |                    |                     |
| Leasing Trust Agreement (Notes 5A-E) | \$ 3,885,026            | \$                 | \$                  |
| Kentucky Area Development            |                         |                    |                     |
| Districts Financing Trust (Note 5F)  | 1,900                   |                    |                     |
| Total Liabilities                    | 3,886,926               |                    |                     |
| <u>Equity</u>                        |                         |                    |                     |
| Fund Balances:                       |                         |                    |                     |
| Unreserved                           | \$ 4,037,550            | \$ 69              | \$ 5,000            |
| Total Equity                         | \$ 4,037,550            | \$ 69              | \$ 5,000            |
| Total Liabilities and Equity         | \$ 7,924,476            | \$ 69              | \$ 5,000            |

The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Totals  
(Memorandum Only)  
Reporting  
Entity  

---

\$ 3,885,026

---

1,900

3,886,926

---

\$ 4,042,619

---

\$ 4,042,619

---

---

\$ 7,929,545

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MORGAN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

|                                                                         | General Fund Type              |                     |                            |                   |
|-------------------------------------------------------------------------|--------------------------------|---------------------|----------------------------|-------------------|
|                                                                         | Totals<br>(Memorandum<br>Only) | General<br>Fund     | Road and<br>Bridge<br>Fund | Jail Fund         |
| <u>Cash Receipts</u>                                                    |                                |                     |                            |                   |
| Schedule of Operating Revenue                                           | \$ 6,405,631                   | \$ 5,267,611        | \$ 927,656                 | \$ 82,393         |
| Other Financing Sources:                                                |                                |                     |                            |                   |
| Transfers In                                                            | 366,014                        | 120,736             | 25,500                     | 219,778           |
| Total Cash Receipts                                                     | <u>\$ 6,771,645</u>            | <u>\$ 5,388,347</u> | <u>\$ 953,156</u>          | <u>\$ 302,171</u> |
| <u>Cash Disbursements</u>                                               |                                |                     |                            |                   |
| Comparative Schedule of Final Budget<br>and Budgeted Expenditures       | \$ 3,410,154                   | \$ 2,344,626        | \$ 773,757                 | \$ 288,540        |
| Other Financing Uses:                                                   |                                |                     |                            |                   |
| Transfers Out                                                           | 366,014                        | 131,278             | 120,736                    |                   |
| Kentucky Area Development<br>Districts Financing Trust -<br>Principal   | 2,400                          | 2,400               |                            |                   |
| Kentucky Association of Counties<br>Leasing Trust - Principal           | 273,551                        | 18,276              | 255,275                    |                   |
| Total Cash Disbursements                                                | <u>\$ 4,052,119</u>            | <u>\$ 2,496,580</u> | <u>\$ 1,149,768</u>        | <u>\$ 288,540</u> |
| Excess (Deficiency) of Cash Receipts<br>Over (Under) Cash Disbursements | \$ 2,719,526                   | \$ 2,891,767        | \$ (196,612)               | \$ 13,631         |
| Cash Balance - July 1, 2001 *                                           | <u>1,323,093</u>               | <u>549,047</u>      | <u>751,212</u>             | <u>879</u>        |
| Cash Balance - June 30, 2002                                            | <u>\$ 4,042,619</u>            | <u>\$ 3,440,814</u> | <u>\$ 554,600</u>          | <u>\$ 14,510</u>  |

\* Due to a classification error, Prior Year Cash Balance was decreased in the General Fund by \$3,014 and increased in the Road and Bridge Fund by \$3,015.

The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY  
 STATEMENT OF CASH RECEIPTS,  
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

| <u>General<br/>Fund Type</u>                          | <u>Special Revenue<br/>Fund Type</u> | <u>Capital Projects<br/>Fund Type</u>           |
|-------------------------------------------------------|--------------------------------------|-------------------------------------------------|
| Local<br>Government<br>Economic<br>Assistance<br>Fund | Forestry<br>Fund                     | Community<br>Development<br>Block Grant<br>Fund |
| \$ 124,772                                            | \$ 3,199                             | \$                                              |
| <u>\$ 124,772</u>                                     | <u>\$ 3,199</u>                      | <u>\$</u>                                       |
| \$                                                    | \$ 3,231                             | \$                                              |
| 114,000                                               |                                      |                                                 |
| <u>\$ 114,000</u>                                     | <u>\$ 3,231</u>                      | <u>\$</u>                                       |
| \$ 10,772                                             | \$ (32)                              | \$                                              |
| 16,854                                                | 101                                  | 5,000                                           |
| <u>\$ 27,626</u>                                      | <u>\$ 69</u>                         | <u>\$ 5,000</u>                                 |

The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Morgan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Morgan County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Morgan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Morgan County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Morgan County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund (LGEA).

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Morgan County Special Revenue Fund Type includes the following county fund: Forestry Fund.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Morgan County Capital Projects Fund Type includes the following county fund: Community Development Block Grant Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Morgan County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Morgan County Fiscal Court: Ambulance Service, Fire Department, and Library District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Lease-Purchase Agreement

Liabilities of the Road Fund are:

| Description       | Purchase<br>Date | Maturity<br>Date | Interest<br>Rate | Amount   |
|-------------------|------------------|------------------|------------------|----------|
| 1999 Chevy Blazer | 9/18/1999        | 3/1/2003         | Variable         | \$ 5,452 |

Note 5. Long-Term Debt

- A. On November 20, 1990, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$689,500 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 144 months to be paid in full November 20, 2002. The principal balance of the agreement was 42,963 as of June 30, 2002. Lease payments for the remaining years are:

| Fiscal Year Ended<br>June 30 | Scheduled<br>Interest | Scheduled<br>Principal |
|------------------------------|-----------------------|------------------------|
| 2003                         | \$ 541                | \$ 42,963              |
| Totals                       | <u>\$ 541</u>         | <u>\$ 42,963</u>       |

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

- B. On June 27, 2000, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full November 20, 2022. The principal balance of the agreement was \$2,347,549 as of June 30, 2002. Lease payments for the remaining years are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2003                                 | \$ 92,169                     | \$ 95,235                      |
| 2004                                 | 88,289                        | 99,115                         |
| 2005                                 | 84,247                        | 103,153                        |
| 2006                                 | 80,048                        | 107,355                        |
| 2007                                 | 75,674                        | 111,729                        |
| 2008-2012                            | 306,180                       | 630,751                        |
| 2013-2017                            | 166,872                       | 770,126                        |
| 2018-2022                            | 21,876                        | 430,085                        |
| Totals                               | <u>\$ 915,355</u>             | <u>\$ 2,347,549</u>            |

- C. On April 21, 1995, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$83,000 for the purchase of trucks. The agreement requires variable monthly payments for 96 months to be paid in full June 20, 2003. The principal balance of the agreement was \$12,000 as of June 30, 2002. Lease payments for the remaining years are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2003                                 | \$ 54                         | \$ 12,000                      |
| Totals                               | <u>\$ 54</u>                  | <u>\$ 12,000</u>               |



MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

- D. On December 8, 1998, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$70,000 for the purchase of an ambulance and a police cruiser. The agreement requires variable monthly payments for 48 months to be paid in full December 20, 2002. The principal balance of the agreement was \$9,368 as of June 30, 2002. Lease payments for the remaining years are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2003                                 | \$ 116                        | \$ 9,368                       |
| Totals                               | <u>\$ 116</u>                 | <u>\$ 9,368</u>                |

- E. On December 20, 2001, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$1,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full December 20, 2021. The principal balance of the agreement was \$1,473,146 as of June 30, 2002. Lease payments for the remaining years are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2003                                 | \$ 47,061                     | \$ 55,033                      |
| 2004                                 | 45,245                        | 56,848                         |
| 2005                                 | 43,372                        | 58,724                         |
| 2006                                 | 41,434                        | 60,661                         |
| 2007                                 | 39,433                        | 62,662                         |
| 2008-2012                            | 164,557                       | 345,716                        |
| 2013-2017                            | 103,845                       | 406,627                        |
| 2018-2022                            | <u>32,765</u>                 | <u>426,875</u>                 |
| Totals                               | <u>\$ 517,712</u>             | <u>\$ 1,473,146</u>            |

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Long-Term Debt (Continued)

- F. On October 14, 1997, Morgan County entered into a \$12,000 lease agreement with Kentucky Area Development Districts Financing Trust for the purchase of a truck. The lease requires semiannual interest and principal payments be made on November 20 and June 20 of each year commencing November 20, 1997. The lease agreement ends November 20, 2002. The principal balance on the lease was \$1,900 as of June 30, 2002. Lease payments for the remaining years are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2003                                 | <u>\$ 52</u>                  | <u>\$ 1,900</u>                |
| Totals                               | <u><u>\$ 52</u></u>           | <u><u>\$ 1,900</u></u>         |

Note 6. Insurance

For the fiscal year ended June 30, 2002, Morgan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



MORGAN COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

| <u>Budgeted Funds</u>                                                                        | Budgeted<br>Operating<br>Revenue | Actual<br>Operating<br>Revenue | Over<br>(Under)<br>Budget |
|----------------------------------------------------------------------------------------------|----------------------------------|--------------------------------|---------------------------|
| <u>General Fund Type</u>                                                                     |                                  |                                |                           |
| General Fund                                                                                 | \$ 13,759,647                    | \$ 5,267,611                   | \$ (8,492,036)            |
| Road and Bridge Fund                                                                         | 1,069,124                        | 927,656                        | (141,468)                 |
| Jail Fund                                                                                    | 177,053                          | 82,393                         | (94,660)                  |
| Local Economic Assistance Fund                                                               | 33,448                           | 124,772                        | 91,324                    |
| <u>Special Revenue Fund Type</u>                                                             |                                  |                                |                           |
| Forestry Fund                                                                                | 3,130                            | 3,199                          | 69                        |
| <u>Capital Project Fund Type</u>                                                             |                                  |                                |                           |
| Community Development Block Grant Fund                                                       | <u>5,000</u>                     |                                | <u>(5,000)</u>            |
| Totals                                                                                       | <u>\$ 15,047,402</u>             | <u>\$ 6,405,631</u>            | <u>\$ (8,641,771)</u>     |
| <u>Reconciliation</u>                                                                        |                                  |                                |                           |
| Total Budgeted Operating Revenue Above                                                       |                                  |                                | \$ 15,047,402             |
| Add: Budgeted Prior Year Surplus                                                             |                                  |                                | <u>\$ 1,318,092</u>       |
| Total Operating Budget Per Comparative Schedule<br>Of Final Budget and Budgeted Expenditures |                                  |                                | <u>\$ 16,365,494</u>      |

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE





MORGAN COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

| Revenue Categories         | <u>GOVERNMENTAL FUND TYPES</u> |                      |                                 |
|----------------------------|--------------------------------|----------------------|---------------------------------|
|                            | Totals<br>(Memorandum<br>Only) | General<br>Fund Type | Special<br>Revenue<br>Fund Type |
| Taxes                      | \$ 473,807                     | \$ 470,616           | \$ 3,191                        |
| In Lieu Tax Payments       | 65,259                         | 65,259               |                                 |
| Excess Fees                | 29,548                         | 29,548               |                                 |
| Intergovernmental Revenues | 5,592,902                      | 5,592,902            |                                 |
| Charges for Services       | 52,381                         | 52,381               |                                 |
| Miscellaneous Revenues     | 31,593                         | 31,593               |                                 |
| Interest Earned            | 160,141                        | 160,133              | 8                               |
| Total Operating Revenue    | <u>\$ 6,405,631</u>            | <u>\$ 6,402,432</u>  | <u>\$ 3,199</u>                 |

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



MORGAN COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

| Expenditure Categories                        | GENERAL FUND TYPE |                          |                           |
|-----------------------------------------------|-------------------|--------------------------|---------------------------|
|                                               | Final<br>Budget   | Budgeted<br>Expenditures | Under<br>(Over)<br>Budget |
| General Government                            | \$ 352,722        | \$ 384,983               | \$ (32,261)               |
| Protection to Persons and Property            | 264,573           | 375,516                  | (110,943)                 |
| General Health and Sanitation                 | 213,070           | 123,964                  | 89,106                    |
| Social Services                               | 2,000             | 2,075                    | (75)                      |
| Recreation and Culture                        | 660               | 3,855                    | (3,195)                   |
| Transportation Facilities and Services        | 260,000           |                          | 260,000                   |
| Roads                                         | 880,450           | 508,452                  | 371,998                   |
| Debt Service                                  | 312,957           | 137,688                  | 175,269                   |
| Capital Projects                              | 12,757,000        | 1,622,140                | 11,134,860                |
| Administration                                | 1,313,831         | 248,250                  | 1,065,581                 |
| Total Operating Budget - General<br>Fund Type | \$ 16,357,263     | \$ 3,406,923             | \$ 12,950,340             |
| Other Financing Uses:                         |                   |                          |                           |
| Borrowed Money-                               |                   |                          |                           |
| Kentucky Area Development                     |                   |                          |                           |
| Districts Financing Trust -                   |                   |                          |                           |
| Principal                                     |                   | 2,400                    | (2,400)                   |
| Kentucky Association of Counties              |                   |                          |                           |
| Leasing Trust - Principal                     |                   | 273,551                  | (273,551)                 |
| TOTAL BUDGET - GENERAL<br>FUND TYPE           | \$ 16,357,263     | \$ 3,682,874             | \$ 12,674,389             |

MORGAN COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

| SPECIAL REVENUE FUND TYPE                            |                 |                          |                           |
|------------------------------------------------------|-----------------|--------------------------|---------------------------|
| Expenditure Categories                               | Final<br>Budget | Budgeted<br>Expenditures | Under<br>(Over)<br>Budget |
| Protection to Persons and Property<br>Administration | \$ 3,130<br>101 | \$ 3,231                 | \$ (101)<br>101           |
| TOTAL BUDGET - SPECIAL REVENUE<br>FUND TYPE          | \$ 3,231        | \$ 3,231                 | \$                        |

| CAPITAL PROJECTS FUND TYPE                  |                 |                          |                           |
|---------------------------------------------|-----------------|--------------------------|---------------------------|
| Expenditure Categories                      | Final<br>Budget | Budgeted<br>Expenditures | Under<br>(Over)<br>Budget |
| Capital Projects                            | \$ 5,000        | \$                       | \$ 5,000                  |
| TOTAL BUDGET - CAPITAL PROJECT<br>FUND TYPE | \$ 5,000        | \$                       | \$ 5,000                  |

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Honorable Sid Stewart, Former Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Morgan County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Morgan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 7, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Honorable Sid Stewart, Former Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Morgan County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Morgan County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Morgan County's management. Our responsibility is to express an opinion on Morgan County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Morgan County's compliance with those requirements.

In our opinion, Morgan County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Morgan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Morgan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 7, 2003

## FINDINGS AND QUESTIONED COSTS





MORGAN COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Morgan County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Morgan County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Morgan County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Morgan County reported in Part C of this schedule.
7. The program tested as a major program was: Abandoned Mine Land Reclamation Program - Jones Creek Water Line Project. (CFDA #15.252)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Morgan County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

None.

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



MORGAN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

| Federal Grantor<br>Program Title<br><u>Grant Name (CFDA #)</u> | <u>Pass-Through<br/>Grantor's Number</u> | <u>Expenditures</u> |
|----------------------------------------------------------------|------------------------------------------|---------------------|
| <u>U.S. Department of the Interior</u>                         |                                          |                     |
| Passed-Through State Department<br>of Natural Resources:       |                                          |                     |
| Abandoned Mine Land Reclamation<br>Programs-                   |                                          |                     |
| Jones Creek Water Line Project<br>(CFDA #15.252)               | FMAO-E415-04                             | \$ 453,302          |
| Passed-Through State Department<br>for Local Government:       |                                          |                     |
| Land and Water Conservation<br>Program (CFDA #15.916)          | Not Available                            | 1,147               |
| <u>U.S. Department of Commerce</u>                             |                                          |                     |
| Pride Grant<br>(CFDA #11.469)                                  |                                          | 28,000              |
| <u>U. S. Federal Emergency Management Agency</u>               |                                          |                     |
| Passed-Through State Department<br>of Military Affairs:        |                                          |                     |
| Disaster and Emergency<br>Assistance Grants-                   |                                          |                     |
| Coordinator Salary<br>(CFDA #83.503)                           | Not Available                            | 3,095               |
| <u>U.S. Department of Education</u>                            |                                          |                     |
| Technical School<br>(CFDA #84.303 )                            |                                          | <u>6,250</u>        |
| Total Cash Expenditures of Federal Awards                      |                                          | <u>\$ 491,794</u>   |

MORGAN COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Morgan County, Kentucky and is presented on a modified cash basis of accounting.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MORGAN COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2002

**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2002**

The Morgan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, reading "Sid Stewart", written over a horizontal line.

Sid Stewart  
County Judge/Executive

A handwritten signature in cursive script, reading "Tommy Phipps", written over a horizontal line.

Tommy Phipps  
County Treasurer



